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SUBJECT: CAFTA RELATED INVESTMENT INTEREST IN GUATEMALA

¶1. Since CAFTA's ratification in March 2005, foreign firms have shown an increased interest in investing in Guatemala. While some companies have finalized their investments, others are still evaluating the country's investment climate. Potential investors cite the government's need to tackle the following problems to make the country more attractive: high electricity costs, insufficient infrastructure, weak contract law, security, and lack of incentives when compared to other Latin American countries.

¶2. Rodolfo Batres, Manager of the government office Invest in Guatemala, told us that one of the main benefits of CAFTA will be greater legal certainty, which is essential to attract foreign investors. According to Batres, Guatemala has a competitive advantage in the areas of call centers, light manufacturing, agro industry, and tourism. Invest in Guatemala data show that new investment in the above-mentioned areas amounted to US\$66.4 million in 2005, and created 3,560 new jobs. Anecdotal evidence suggests that total FDI is greater, but not as high on a per capita basis as in most of Guatemala's neighbors.

¶3. The press has reported on many CAFTA-related investments in the last few months. While most are only in the exploratory phase, WalMart and General Electric head the list of investors who have finalized their projects. Other potential new investors include companies in automobile and electronics assembly, and textiles.

WalMart buys Carhco Stocks

¶4. The Vice-President of Carhco announced on September 21, 2005 that WalMart Stores Inc. had acquired 33.33% of the company's stocks from the Dutch retailer Royal Ahold. Carhco, the largest Central American retailer, has 120 stores in Guatemala, 57 in El Salvador, 32 in Honduras, 30 in Nicaragua and 124 in Costa Rica. It has 23,000 employees and its sales amounted to US\$2 billion in 2004. According to the Agreement signed with WalMart, Carhco could expand into the Caribbean, Colombia, Peru and Ecuador. The agreement includes an option for WalMart to increase its share in Carhco in the near future, which analysts expect it to exercise.

GE Acquires Shares of Grupo BAC-CREDOMATIC

¶5. The financial division of General Electric, GE Consumer Finance, has invested over US\$500 million to acquire 49.99% of the shares of Grupo BAC/Credomatic, a large consumer-oriented financial group with operations in all Central American

countries. General Electric is separately exploring the possibility of establishing a regional call center in Guatemala, which would employ around 2,000 people.

Bayer Doubles Capacity

¶16. Bayer Guatemala invested Q2.5 million (US\$300,000) to double its capacity and improve its quality control. In the short-run, the company also plans to invest US\$1.3 million to construct a new plant. Bayer Guatemala produces around 1 billion self-medication tablets, which are exported throughout Central America, the Dominican Republic, Haiti and the other Caribbean countries.

Isuzu Motors Plans to Expand Assembly Plant

¶17. The General Manager of Auto Com, the official representative of Isuzu Trucks in Guatemala, announced in August 2005 that Isuzu Motors will invest US\$3 million to expand its truck assembly plant, where it currently assembles around 800 trucks per year for the local market. With the new investment, the company will be able to produce up to 2,000 units annually, which it will export to Central America and the Caribbean. Currently, Isuzu employs 200 people, with the new investment creating an additional 300 jobs. According to the press, Hyundai and Kia are also interested in Guatemala.

Santista Explores Investment in Textile Plant

¶18. Santista Textil, one of the largest denim producers in the world, wants to invest US\$100 million in a textile plant in Central America which would create about 750 new jobs. It has not yet decided which country to choose, and is comparing incentives and other factors. In the case of Guatemala, which it has visited four times, Santista mentioned that insecurity, pending amendments to the Free Trade Zone Law, the high cost of electricity, insufficient infrastructure, the delay in CAFTA implementation, and a lack of incentives are obstacles.

LG Electronics Could Establish Assembly Plant

¶19. The Guatemalan president of LG electronics announced that his company is interested in installing an assembly plant in Guatemala, but said that this could require changes in legislation, customs procedures, tax incentives, lower energy costs, and better security. LG would assemble audio and video equipment for the Central American market. Samsung electronics has also shown an interest in Guatemala.

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